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SOFTWARE BUYERS GAIN FLEXIBILITY: NEW PRICING AND DELIVERY OPTIONS CHANGE THE GAME

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Just five years ago, with demand at its peak, software vendors largely dictated the terms of purchase. But as the economy slowed, so did software sales. As IT budgets shrank, many companies began focusing on optimizing and integrating previous software acquisitions rather than making big new purchases.

Today, many sewn-products firms are greeting improved business conditions with increased spending on software and services. But, while the business outlook and IT budgets are clearly on the rise, many manufacturers remain cautious and conservative. Still reeling from a punishing recession and global competition, most manufacturers indicate that their highest investment priority is to reduce costs.

To entice buyers in this environment, many software vendors are offering more creative and customized pricing and delivery choices. In the traditional relationship between buyers and sellers, manufacturers often pony up large sums of cash to buy perpetual (never ending) licenses for new software programs. They then spend considerable time installing the programs on their internal systems, and even more time working out the kinks.

The most radical change in pricing has been the movement toward subscription plans and away from perpetual licenses. Even though perpetual licenses are still the dominant approach (by far) for buying software, subscription pricing is slowly but surely growing and is being offered by more suppliers. Subscription buyers pay for software licenses by the month, quarter, year or longer and can cancel at the end of their term. Even large established vendors such as Oracle, which in the past offered subscriptions only to large clients, have softened their stance in response to customer demand.

The trend toward subscription contracts is being driven in part by customers' dissatisfaction with the old way of deal making. Perpetual licenses can entail large up-front costs, annual maintenance fees that can reach 20% or more of the software fee, and often lock buyers into a costly long-term relationship with the vendor.

From a financial perspective, subscription pricing over a five-year period, for instance, is more expensive than perpetual programs. And software purchased in any other way than as a perpetual license is viewed as a business cost as opposed to a depreciable asset and must be accounted for on profit-and-loss statements.

The concept of subscription licenses isn't entirely new. Now that the hype around application service providers (ASP's) – early dot-com era proponents of the subscription model – has died down, more traditional software companies are offering subscription licenses, and in some cases, hosted services that also give buyers the option of having the software vendor manage the software for them.

Meanwhile, some traditional licenses based on one named user per license are also alternatively being offered as 'concurrent' licenses in which buyers purchase or rent licenses that can be divvied up among users as needed from one moment to the next.

These subscription, hosting, and concurrent licensing models are interesting to software vendors as well. As opposed to the choppy sales generated by one-time licensing, subscription and hosting options provide them steady income – and sometimes more of it.

Clearly the purchase and implementation options for new IT solutions are growing. One can even imagine the potential for pay-as-you-go plans where software is priced and delivered as a utility – delivered via the Web and charged by usage rather than preset contract fees. Obviously that is still a distant dream for most buyers and sellers.

What type of program is right for you? Much depends on your particular circumstances and goals. One thing is for sure, the future of software buying and selling will continue to change with market conditions.

Productive Solutions, LLC is an Atlanta-based consulting firm providing measurable results in business strategy, integrated marketing, and technology guidance. Contact Rick Ludolph at r.ludolph@productivesol.com.